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Message Text

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INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 NSAE-00
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COME-00 EB-08 FRB-03 INR-10 IO-13 NEA-11 OPIC-03
SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
L-03 XMB-02 /105 W
----------065897 202055Z /62
O O 201947Z MAY 78 ZFF 4
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 1850
AMEMBASSY ANKARA NIACT IMMEDIATE
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY TOKYO

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E.O. 11652: GDS
TAGS: EFIN, EAID, TU, OECD
SUBJECT: AGREEMENT RENEGOTIATING TURKEY'S EXTERNAL DEBT

REF: (A) PARIS 15793, (B) PARIS 15957

1. SUMMARY: AN OECD WORKING PARTY HAS REACHED AGREEMENT ON A PROPOSAL RESCHEDULING A LARGE PORTION OF TURKEY'S OFFICIAL OR OFFICIALLY GUARANTEED DEBT SERVICE (INCLUDING ARREARS) FALLING DUE THROUGH JUNE 30, 1979. THE PROPOSAL, WHICH WAS ACCEPTED BY TURKISH REPRESENTATIVES ON THE AFTERNOON OF MAY 20, WAS SAME ONE THEY CONFIDENTIAL

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HAD REJECTED LATE IN THE EVENING OF MAY 19. AT THAT TIME, TURKISH REPS SAID THEY COULD ONLY ACCEPT THE AGREEMENT IF IT WAS EXTENDED TO COVER DEBTS FALLING DUE THROUGH DECEMBER 31, 1979. ON THE BASIS INSTRUCTIONS RECEIVED FROM WASHINGTON, US DEL SECURED SUPPORT OF CREDITORS FOR EXTENDING PERIOD THROUGH DECEMBER 31, 1979 BUT HAVING IMPLEMENTATION OF LAST NINE MONTHS OF

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AGREEMENT CONTINGENT ON TURKISH COMPLIANCE
WITH THE TERMS OF ITS IMF STANDBY ARRANGEMENT.
TURKISH REPS DETERMINED THE CONDITIONAL NATURE OF THE
PROPOSAL MADE IT POLITICALLY UNACCEPTABLE, AND THEN
CHOOSE THE PREVIOUSLY REJECTED TERM. US DELEGATION
VIEWS AGREED PROPOSAL TO BE A GOOD ONE IN THAT FOR
THE MOST PART IT REALISTICALLY REFLECTS REALITIES OF
CURRENT TURKISH DEBT SITUATION. MAJOR WEAKNESS IS
THAT NO SHORT-TERM DEBT SERVICE FALLING DUE PAST MAY
20 IS RESCHEDULED, ALTHOUGH IT DOES INCLUDE ARREARS
ON SHORT-TERM DEBT (POSSIBLY ABOUT $500 MILLION).
CREDITOR COUNTRY DELIBERATIONS WERE MARKED BY CON-
FLICTING INTERESTS OF US DEL AND FRENCH CHAIR ON
ISSUE OF INCLUSION SHORT-TERM DEBT. END SUMMARY.

2. A WORKING PARTY SET UP BY THE OECD TURKISH CON-
SORTIUM HAS CONCLUDED A DEBT RESCHEDULING AGREEMENT
FOR TURKEY WHICH RESCHEDULES A LARGE PORTION OF GOVERN-
MENT OR GOVERNMENT GUARANTEED DEBT OWED BY TURKEY IN THE
PERIOD THROUGH JUNE 30, 1979. (TEXT OF AGREEMENT BEING
HAND-CARRIED TO WASHINGTON AND ANKARA.) MAJOR COMPONENTS
OF THE AGREEMENT ARE AS FOLLOWS:

(A) SHORT-TERM DEBT: 80 PERCENT OF CURRENT ARREARAGES
(ESTIMATED TO BE ABOUT $500 MILLION) ARE TO BE RESCHE-
DULED. REPAYMENTS WILL BE SPREAD OVER 6 YEARS, IN-
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CLUDING TWO YEARS GRACE. PAYMENTS ON THE REMAINING
20 PERCENT WILL BE MADE IN 4 SEMI-ANNUAL PAYMENTS
BEGINNING 9/30/78.

(B) DEBT WITH A MATURITY OF MORE THAN ONE YEAR:
80 PERCENT OF ARREARAGES (ESTIMATED TO BE ABOUT $85
MILLION) AND 80 PERCENT OF DEBT SERVICE FALLING DUE
PRIOR TO JUNE 30, 1979 TO BE RESCHEDULED. REPAYMENTS
WILL BE SPREAD OVER 8 YEARS, INCLUDING 3 YEARS GRACE.
PAYMENTS ON THE REMAINING 20 PERCENT WILL BE MADE IN
4 SEMI-ANNUAL PAYMENTS BEGINNING 12/31/78.

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3. NEGOTIATIONS WERE CHARACTERIZED BY HARD BARGAINING BOTH BETWEEN TURKISH REPS AND CREDITORS, AND AMONG CREDITORS THEMSELVES. AMONG THE CREDITORS, THE PRIMARY ISSUE WAS TREATMENT OF SHORT-TERM DEBT. THESE ARE TRADITIONALLY EXCLUDED FROM MULTILATERAL DEBT RENEGO-TIATIONS. IN OUR VIEW, HOWEVER, TURKEY'S HEAVY SHORT-TERM OBLIGATIONS AND PRECARIOUS PAYMENTS POSI-TIONS CLEARLY NECESSITATED SOME ACTION. MOREOVER, IT ALSO SERVED USG INTERESTS TO INCLUDE SUCH DEBT SINCE, WHILE WE ACCOUNT FOR OVER 35 PERCENT OF 1978/79 DEBT SERVICE ATTRIBUTABLE TO DEBT OF MORE THAN ONE YEAR, WE HAVE VERY LITTLE SHORT-TERM EXPOSURE. AT
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US PRODDING, ALL CREDITORS AGREED TO BE FLEXIBLE ON INCLUSION OF SOME SHORT-TERM DEBT. SOME, HOWEVER, PARTICULARLY FRENCH, SWISS AND SWEDES, WERE CLEARLY DETERMINED TO INSURE IT WAS THE MINIMUM AMOUNT POSSIBLE. FRENCH USED CHAIRMANSHIP VERY EFFECTIVELY TO THIS REGARD. WHILE EFFORTS TO INCLUDE SHORT-TERM DEBT FALLING DUE AFTER MAY 20 (ESTIMATES OF THE DEBT VARY BETWEEN $250 TO $500 MILLION) WERE NOT SUCCESSFUL,

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US DEL PERSISTENCE DID LEAD TO GENEROUS RESCHEDULING OF THE SUBSTANTIAL SHORT-TERM ARREARS. ROUGH ESTIMATES ARE THAT THESE ARREARAGES TOTAL ABOUT $500 MILLION, $260 MILLION OF WHICH ARE ATTRIBUTABLE TO FRG. (FRENCH HAVE LITTLE IN THE WAY OF SHORT-TERM ARREARS ($38 MILLION) BUT OVER $140 MILLION NOT YET DUE.)

4. AS NOTED REFTEL (B) INITIAL CREDITOR PROPOSAL TO TURKISH REPS WAS NOT VERY FORTH COMING AND IN VIEW OF US DEL, AS WELL AS IBRD AND IMF REPS, WOULD HAVE BEEN VERY INADEQUATE TO THE CURRENT TURKISH SITUATION. TURKISH REPS REJECTED PROPOSAL, AND REPEATED INITIAL REQUEST FOR A RESCHEDULING OF ALL OFFICIAL AND PRIVATE DEBT FALLING DUE OVER NEXT FIVE YEARS. LATE ON MAY 19, THE CREDITOR COUNTRIES PRESENTED A "BEST EFFORT" PROPOSAL, WHICH WAS SAME PROPOSAL AS THAT ACCEPTED BY TURKISH DEL ON MAY 20. AFTER LENGTHY TELEPHONE CONVERSATION WITH ANKARA, TURKISH REP TURNED DOWN CREDITORS' PROPOSAL STATING THAT HIS MINISTER WOULD PERMIT ACCEPTANCE ONLY IF THE PROPOSAL WAS AMENDED TO INCLUDE MATURITIES FALLING DUE IN THE PERIOD 7/1/79 THROUGH 12/31/79. (THROUGHOUT THE RENEGOTIATION, TURKISH REPS HAD FOCUSED HEAVILY ON THE TERM OF AGREEMENT, I.E. THE CONSOLI-
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DATION PERIOD, WHILE IN CONTRAST THEY MADE VERY LITTLE FUSS ON SHORT-TERM DEBT ISSUE.)

5. THE CONSORTIUM CREDITORS WERE NOT ABLE TO REACH A UNANIMOUS POSITION ON TURKISH COUNTERPROPOSAL TO EXTEND CONSOLIDATION PERIOD TO 12/31/79. TEN CREDITORS WERE READY TO ACCEPT IT, BUT US AND CANADAINS STATED THEY COULD NOT, ALTHOUGH CANADIANS INDICATED THEY WOULD JOIN CONSENSUS IF US DECIDED TO GO ALONG. JAPAN AND ITALY INDICATED THEY WOULD RESERVE, A POSITION THEY HAVE CONSISTENTLY TAKEN THROUGHOUT THE MEETING OWING TO A LACK OF OFFICIAL ORDERS. THE MEETING ENDED AT 2:30 A.M. MAY 20 WITH WORKING GROUP CHAIRMAN ASKING DELS FROM TURKEY, US AND CANADA TO SEEK FURTHER GUIDANCE FROM CAPITALS.

6. AFTERN CONSULTATIONS WITH WASHINGTON, US DEL ADVISED CREDITORS-ONLY MEETING THAT USG WOULD BE PREPARED TO EXTEND AGREEMENT THROUGH 12/31/79 (I.E. A 19 MONTH CONSOLIDATION PERIOD) IF THE LAST NINE MONTHS OF THE AGREEMENT COULD BE MADE CONDITIONAL ON TURKISH COMPLIANCE WITH ITS IMF STANDBY AGREEMENT. OTHER CREDITORS AGREED TO SUPPORT USG COUNTER-

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PROPOSAL AND IT WAS PRESENTED TO TURKISH REPS. PRO-
POSAL WAS AMENDED SOMEWHAT IN OTHER WAYS TO INCREASE

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ITS ATTRACTIVENESS. TURKISH REPS FOUND PROPOSAL
INTERESTING BUT SAID THEY WANTED TIME TO REFLECT AND
SUGGESTED CONSORTIUM ADJOURN AND RESUME NEGOTIATIONS
LATE NEXT WEEK. THE CREDITOR COUNTRIES THOUGHT SUCH
AN ADJOURNMENT WOULD NOT BE WISE TACTICALLY, AND
PERCEIVED IT AS A RUSE TO ALLOW TIME FOR GOT TO
ATTEMPT USE POLITICAL PRESSURE TO ACHIEVE MORE
FAVORABLE AGREEMENT. AT THIS POINT, CREDITORS ADVISED
TURKISH REPS TO GIVE CAREFUL CONSIDERATION TO BOTH
PROPOSALS; I.E. THE ONE FINALLY ACCEPTED (WITH A 13
MONTH CONSOLIDATION PERIOD) AND THE US INSPIRED
REVISION (WITH A 19 MONTH CONSOLIDATION PERIOD). THE
CREDITORS ALSO ADVISED THE TURKISH REPS THAT IT WOULD
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NOT BE POSSIBLE TO KEEP THE PROPOSALS "ON THE TABLE" BEYOND TODAY. AFTER THREE HOURS OF DELIBERATION, TURKISH REPS ANNOUNCED ACCEPTANCE OF 13 MONTH PROPOSAL. IN DOING SO, THEY NOTED THAT THE 19 MONTH PROPOSAL WAS MORE ATTRACTIVE FINANCIALLY, BUT THAT THEY COULDN'T ACCEPT ITS CONDITIONALITY WHICH - IN THEIR VIEW - WAS NOT AT ALL APPROPRIATE FOR AN EXERCISE OF THIS KIND.

7. RELATIONS BETWEEN TURKISH REPS AND CREDITOR REPS WAS CONSISTENTLY CORDIAL THROUGHOUT NEGOTIATIONS, AND OVERALL ATMOSPHERE WAS DECIDEDLY POSITIVE. WHILE UNREALISTIC TURKISH OBJECTIVES (I.E. 5 YEAR CONSOLIDATION PERIOD) WERE NOT ATTAINED, TURKISH REPS DID SECURE RELATIVELY GOOD AGREEMENT AND AT LEAST PUBLICLY REPS SEEM MODESTLY SATISFIED WITH OUTCOME. THE VIABILITY OF THE AGREEMENT WOULD OF COURSE HAVE BEEN ENHANCED BY THE INCLUSION OF MORE SHORT-TERM DEBT. IN ANY CASE, TURKEY HAS A LONG WAY TO GO TO RESTORE ITS CREDITWORTHINESS WITH THE LEVEL AND COMPOSITION OF OUTSTANDING INDEBTEDNESS GIVING CLEAR WARNING THAT CONDITIONS WARRANTING A NEW RESCHEDULING ARE LIKELY TO BE PRESENT WHEN THE CURRENT AGREEMENT EXPIRES 6/30/79.
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Message Attributes

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Review Release Date: n/a
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Review Withdrawn Fields: n/a
SAS ID: 2629106
Secure: OPEN
Status: NATIVE
Subject: AGREEMENT RENEGOTIATING TURKEY\'S EXTERNAL DEBT
TAGS: EFIN, EAID, TU, OECD
To: STATE ANKARA
Type: TE
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